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NEW YORK CITY'S
BUDGETARY AND
ACCOUNTING REVISION

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Box 835

HON. HERMAN A. METZ

COMPTROLLER

ADDRESS

BY

HON. HERMAN A. METZ

COMPTROLLER, CITY OF NEW YORK

BEFORE THE

ASSOCIATION OF
AMERICAN GOVERNMENT
ACCOUNTANTS

AT

WASHINGTON, D. C.

ON NOVEMBER 24, 1908

Seligman



PD 520 8 1930

GENTLEMEN OF THE ASSOCIATION OF AMERICAN
GOVERNMENT ACCOUNTANTS:

Through the courtesy of your President, Dr. Powers, and at his cordial and urgent solicitation, I accepted his invitation to address you on the subject of New York City's Budgetary and Accounting Revision, and am pleased to be with you to-night for the purpose of giving a brief outline of what we are now undertaking in our Department of Finance towards establishing improved methods in public administration through budgetary control and a significant classification of expense accounting.

The pressure of official business during the past several months has been unusually great and has been due in a large measure to the budgetary revision and other undertakings which I shall refer to later on, together with the necessary preparations for the sale of \$12,500,000 of our City bonds which took place yesterday; and it was therefore only because of the splendid work which the Census Bureau, under the able guidance of Dr. Powers, is and has been doing in the cause of improved public accounting and reporting, and because of the character and purpose of your Association—the members of which must be undoubtedly interested in all movements having for their purpose improved efficiency in the systems of public accounts—that I could see my way clear to devote the time necessary to be with

you and to present the subject matter of this evening's address in such a manner as I hope will prove of interest to you all.

Revision of City's Accounting System. Since the latter part of 1906 the Department of Finance of The City of New York has undertaken to make history on a large scale in the field of Municipal Accounting, and there is now in progress the institution of changes in the departmental organization and in the manner of conducting the City's accounts which, when fully tested, will—if the new expedients are warranted and become fairly established—effect a marked alteration in the routine and processes of many of the City's accounting bureaus, and obsolete many of the present characteristics that have obtained for nearly a century past.

In recognition of the growing interest manifested by the public in the greater clarity of municipal reports, we heartily accepted the suggestion to co-operate in this work, offered by the Bureau of Municipal Research—a civic organization which is being maintained by public spirited citizens of our great City who are desirous to aid in the problem of how best to improve and revise the accounting methods obtaining in the City Departments, to the end of establishing greater administrative control over the revenues and expenditures of the City.

A committee composed of accountants and other experts in their several lines, culled from my immediate staff, was accordingly appointed to co-operate with said Bureau in discussing the adequacy or inadequacy of

current administrative methods and devising remedies where needed. The first principle which was formally accepted by the Board of Estimate and Apportionment at its meeting held October 30, 1906, was that of functional segregation in the classification of departmental budgets, which principle was to be applied to the Department of Health for the year 1907.

At a subsequent conference on April 1, 1907, arrangement was made for an analysis and reclassification of the expenditures of the Department of Water Supply, Gas and Electricity, in the same manner as had already been done in the Department of Health, and on May 16th the work was further extended to include the Department of Street Cleaning, and Bellevue and Allied Hospitals.

Reclassification of Expenditures Consequent upon Budget Revision.

It was recognized at the outset that a reclassification of the budgets along functional lines would entail also a reclassification of expenditures co-ordinating therewith, and attention was accordingly directed to the designing and installation of a system of accounts in the several Departments which should be adequate to the new requirements and establish a working relationship with the new facts to be dealt with. As a result of the special study devoted to them, the four Departments before named opened their books at the beginning of 1908 in accordance with an amended classification of appropriations or Budget accounts, and with an entirely new and uniform scheme of bookkeeping, which had

been formulated by a special committee in the latter part of 1907, and which sought to provide control over stores, contracts, orders, invoices and vouchers in a manner that would currently verify and reflect the operating expenses of the several divisions or dependencies of each Department.

Partly through want of preparation and an early familiarity with the new order of things, only the Department of Health, Bellevue and Allied Hospitals and the Department of Street Cleaning were able to conform, with an approximate degree of completeness, to the new regime, but its general features and working possibilities will be fairly well measured and determined by the end of the current year, when the advisability of its extension to other Departments of the City Government can be considered in the light of actual experience.

Reorganization of the Department of Finance. The contemplated revision of the bookkeeping methods of the remaining thirty-odd City Departments represents, however, only one side of the work to be accomplished. Another feature of the contemplated installation is of even greater importance. I refer to the reorganization of the Department of Finance and changes in the manner of conducting the general City accounts to radical and preserving so little of the old methods as fairly to be considered more a reconstruction than a revision of the system that has heretofore obtained.

Inasmuch, however, as we are just entering upon the substitution of the new for the old, and, by reason of the volume and range of our operations, must perforce take up one feature at a time, it is now too early to offer any precise or even comprehensive account of what we are now undertaking, either with respect to the plan of reorganization or to the presumptive merits of the new expedients; but there can be little doubt that within a year's time from now our endeavors will have resulted in the solution of some very interesting problems in municipal organization and accounting when conducted upon a scale compatible with the magnitude of the great City of New York.

On September first of this year there was put into operation a revised system for drawing, signing, recording and disbursing warrants. This system involved the immediate discontinuance of a number of records, and the release, for other work, of about twenty clerks who were employed in maintaining them. This installation has affected not only the work of several Bureaus of the Department of Finance, but the City Chamberlain's and the Mayor's offices, and the office of the Commissioners of Accounts. The most conspicuous feature of the new system for handling warrants is the substitution of an octuplicate typewritten record for the various independently kept book records previously maintained in the several offices through which warrants are required to pass. By a single writing a record is made for each of the eight offices affected, which heretofore required a separate posting for each of them.

The following are the records which the adoption of the new system has made *unnecessary*:

1. Eight (8) Registers of Claims in the Bureau of Audit.
2. Four (4) Claims Records, previously kept in the Bureau of Audit.
3. Fourteen (14) classes of Warrant Registers, heretofore kept in the Bureau of Bookkeeping and Awards.
4. Daily Abstracts of Warrants Drawn.
5. Thirteen (13) Memorandum Registers of Warrants maintained in the Bureau of Bookkeeping and Awards.
6. One (1) Summary Appropriation Ledger, maintained in the Bureau of Bookkeeping and Awards.
7. Fourteen (14) classes of Warrant Registers, kept in the office of the Mayor for the purpose of recording warrants countersigned.
8. Warrant Registers kept in the office of the Disbursing Clerk.
9. Disbursement Records kept in the office of the Commissioners of Accounts.

In place of the foregoing books, the schedules, made in eight copies on the typewriter, are filled in toto, serving not only the same purpose as the independent records which they supplant, but providing additional information necessary to establish controlling accounts.

Accounting Control.

In addition to this revision of the system for handling warrants, plans are in preparation for the simplification of the processes with respect to vouchers received from departments for payment, and to establish a basis for the accounts kept in the Department of Finance, which enable the Chief Accountant to exercise control over the accuracy of the accounts kept in the several departments of the City.

Audit of Receipts Through Registration of Accruals.

The Auditor of Receipts is also engaged upon the preparation of plans to bring under control the various bureaus and divisions of the City Government receiving moneys, and to thus fully and adequately protect the City's revenues.

In order that there may be uniformity in the form and size of stationery and blanks used by the City for licenses, permits, privileges and receipts issued, and at the same time a medium be established for effective control over the several issuing departments and offices, it has been determined that engraved stationery, specially designed for control, be adopted along the following lines and classifications:

Revenues from rents will be considered as accruals to the City, derived from leasehold agreements, etc.

Revenues from licenses will be considered as accruals to the City, derived from its formal grant, or from permission to persons or corporations to conduct classes of business, etc.

Revenues from permits will be considered as accruals to the City from formal grants or permission by persons in executive or administrative authority for the performance of special acts, the nature of which is specifically defined by the terms of the instrument conveying such grants and the performance of which acts terminates the grants.

Revenues from office fees, penalties, etc., will be considered as accruals to the City, derived as compensation for clerical and other official services, such as recording, docketing, certifying, administering oaths, etc., and from imposition of charges by courts and other offices exercising judicial discretion.

Also revenues from—

- Taxes.
- Assessments.
- Water Rents.
- Redemptions.
- Franchises and Miscellaneous Receipts.
- Tolls.
- Forfeitures.
- Interest.
- Advances.

There are certain features of the proposed change which give promise of substantial and lasting benefit, either in the form first introduced or in such form as these will assume after actual working has suggested amendments or modifications. There are other features which, in spite of the apparent logic of the theories upon which they rest, are regarded with some appre-

hension, but, in any event, I believe that ultimately good will come out of the experiment by confirming the worth or worthlessness of theories which invite the test of practical application, even if in some instances the experiment proves to be costly.

Returning to the subject of functional segregation of functional segregation in the classification of departmental budgets, I should like here to say a few words by way of elucidating what the expression used actually means.

The primary objects of the annual budget are to determine and provide the funds for the operating expenses of each City department, and, at the same time, to limit the expenditure thereof in the same prescribed sum or amount, and so exercise control over the total governmental expenditures of the City by restricting each department at the outset to a predetermined and stated annual credit.

In order that the underlying purpose of the control so exercised may be realized to the fullest practical extent, not only are the contemplated expenditures for each department (regarded as a general function) measured and fixed, but also the expenditures of those several bureaus and divisions, where such exist, and for the specific purposes (regarded as subordinate functions) which each undertakes to fulfill, are in like manner estimated and made the subjects of stated credits, collectively constituting the total sum available for the department as a whole; and while the total sum may under no circumstances be exceeded, the component or subcredits in *our*

City budgets possess a limited elasticity through permission granted by the Board of Estimate and Apportionment to make transfers from one subcredit to another within the same department upon proof of the inadequacy of one credit and the over-provision of another, and that such transfer is advisable. The principle, however, that each subcredit provided for a specific subordinate function must be expended solely for such purpose remains unchanged, and, theoretically, is as absolute as the exactions which apply to the applications of the total departmental appropriation.

*Functional Activities
and Expense Analysis.*

As every City department in the main, and each division or bureau thereof, is engaged in activities dissimilar from any or all of the others and so fulfills functions peculiar to itself, and as budget control, to be effective, must relate each credit to the specific purpose to be accomplished or thing to be done and so follow functional lines, the departmental estimates and related appropriation accounts applicable to each of said departments, bureaus and divisions must necessarily be stated under titles characteristic of the functional activities, and so differ in each instance.

On the other hand, no matter what peculiar service or undertaking may distinguish a department or subdivision thereof, the expenditures, regarded according to their character instead of purpose, will fall under one or more of a few general headings common to all departments, and in this respect the administrative control exercised by means of distinguishing between different *expenses* instead of *functions* may be stated under

titles characteristic of the few possible subjects of expenditure applicable to all departments alike. While, therefore, the titles of accounts operated for the purpose of exercising budgetary control will be as numerous, varied and peculiar to each department as the separate governmental functions comprehended within their several collective activities, the titles of accounts that may be operated for purposes of administrative control upon expense lines will be comparatively few in number and not peculiar to any one particular department more than to another.

*Failure to Distinguish
Between Functions
and Expenses.*

In the budgets as heretofore composed and the corresponding appropriation accounts operated there has been a marked failure to properly distinguish between *functions* and *expenses*, and accounts embracing both classes appear as components of one and the same total budget appropriation, so that, while an attempt is made to exercise both budget and administrative control, no complete control of either kind is realized. Take, for instance, the appropriation for the year 1906 of the Department of Correction, Borough of Manhattan, and we find the following specific budget appropriations:

1. Salaries	\$299,944.50
2. Supplies and Contingencies.	377,948.00
3. Additions, Repairs and Improvements to Buildings, Apparatus and Steamboats	15,175.00

4. Donations to Discharged Prisoners	2,000.00
5. Transportation, Maintenance and Expenses of Insane Criminals.....	500.00
6. Improvement of Riker's Island	15,000.00
	\$710,567.50

The inconsistency of the above composition is obvious. Items 1 and 2 are clearly expense items, while Items 3, 4, 5 and 6 are clearly functional. As the expense items 1 and 2, so specifically provided, would normally be incident to the functional items which follow, their separate recognition only in gross destroys all budgetary control over the application of these two largest sums to the uses which the department is charged with performing; while the sums provided for functional purposes are understated by the omission of the principal expense incident thereto, and are accordingly controlled only to the amount of the lesser expenses, the character of which being in no way indicated is consequently in no way subject to administrative control.

As no department is theoretically constituted for the sole purpose of paying salaries for no other reason than to provide private incomes to the persons to whom said salaries are paid, it is obviously absurd to consider salaries as an item for exercising budgetary control; and alternatively, as all departments are charged with the

accomplishment of certain specific ends the budget control should recognize only such ends without regard to the composite elements of salaries, supplies, equipment, etc.—except as a supplementary consideration—because the latter are purely matters of administrative control through the medium of expense accounts.

Departmental Estimates. The basic principle, therefore, which should govern the preparation of departmental estimates finds expression in the following form:

General Functions:

Administrative cost of central office.

Operating cost of department at large, stated under the general functions comprised.

Administrative and operating cost of each of the several bureaus and divisions in one round sum for each, to be supported by bureau or division estimates.

Specific Functions, submitted for each bureau or division separately:

Administrative cost of bureau or division.

Operating cost, stated according to functions or descriptive titles of undertakings in one account for each, without regard in this classification to any expense, such as salaries, supplies, maintenance, equipment, contingencies, etc., incident to the fulfillment of such functions.

After establishing the total sum required to perform each specific function, each of such sums is to be just-

fied or warranted by its subdivision according to the character and amount of each element of expense, as salaries, wages, supplies, materials, equipment, etc., by which the degree of economy exercised in the performance of such functions may be comprehended, approved and criticised by the Board of Estimate.

A budget made up from departmental estimates submitted on the lines just described, and the appropriation accounts opened in conformity therewith, *would absolutely establish and limit the credit applicable to each actual governmental purpose under significant titles, clearly reflecting the character of the functions*, and in conformity with the nomenclature and sequence by and under which such functions are recognized, grouped and related in the most advanced schemes of municipal accounting and reporting, of which the schedules adopted by the Census Bureau are a good example.

Appropriation and Expense Ledgers. functional accounts forming the contents of the Appropriation Ledger,

an Expense Ledger would be conducted, containing accounts with each element of expense, wherein administrative control over the expenditures for salaries, supplies, materials, equipment, contingencies, etc., could be as effectually exercised as that afforded over the expenditures for functional activities. To do so it would only be necessary to *endorse each voucher for charge to both the functional and the expense accounts* to which it is applicable, and to register and collate the items with respect to both subjects for posting to the respective Appropriation and Expense Ledgers.

As the departmental estimates would develop two classifications of the credit required, one according to the functions and the other according to the expenses, both regulating expedients could be carried into the budget, and stated and limited credits could be established both in the Appropriation and Expense Ledgers against which the warrants would be charged, and neither of such credits could be exceeded without permission from the Board of Estimate and Apportionment after due inquiry and authority for a transfer of funds.

In carrying this principle to its conclusion it would be practicable to prepare a table, dividing the expenditures for every function into the expense accounts related thereto, and also to prepare a table distributing every expense account among the several governmental functions to which it contributed, it being only necessary to conduct a separate group of expense accounts for each function.

With such a system installed and continued, the control over departmental expenditure would approach the absolute, for not only would the amount expended for each and every purpose be distinctly and accurately reflected in the accounts—a condition which does not now obtain—but the manner in which it was spent and the relative volume of salaries, wages, materials and other expense divisions in past and current years would come equally under scrutiny and regulation, a feature which heretofore has been entirely ignored in the City's accounting system and procedure.

This principle may apply with equal advantage to bond funds provided upon estimate of requirements, which may not only be restricted to the particular undertaking indicated by the title of the fund equivalent to a functional title of a budget item, but also apportioned among the several classes of expense originally forming the basis of the calculation by which the required total sum was deduced, and requiring all warrants registered for payment out of such fund to indicate the specific expense title to which they relate.

*Standard Titles for
Expense Classification.*

The titles of expense accounts would naturally become standard after the classification of expenses had been fully considered and determined, and as a step in that direction the following suggestions are offered:

General titles to be substituted for those heretofore in use:

- I. Salaries—subdivided.
- II. Wages—subdivided.
- III. Materials.
- IV. Tools and Implements—subdivided.
- V. Equipment—subdivided.
- VI. Maintenance Supplies.
- VII. Consumable Supplies.
- VIII. Contingent Expenses.

It will be observed that rent, water, gas, electricity and telephone are omitted from the above list. Where such, under present conditions, form a part of a department's expenses and so enter into its departmental

estimate and budget, they would have to be regarded as items, but it seems to me that, properly, such items being indispensable facilities to every department's existence, they should be regarded as general City expenses, applicable to no specific function, and therefore not matters for which such departments as do not occupy public buildings should be required to petition the Board of Estimate and Apportionment. As all departments alike must be housed and supplied with facilities for communication, one general appropriation account for rents, for telephone and for gas and electricity would seem more in keeping with the true situation than to encumber the estimates of some of the departments with such details—while other departments are relieved of any concern regarding them.

*Grave Problems of
City Government.*

No graver problems of government confront civilized countries than those developed during the last quarter of a century in the management of the affairs of American cities. In addition to the great functions of education, the conservation of public health and sanitation, the protection of life and property and the care of the poor and the sick—all of which are involved in the government of large municipalities—there is the all-important and ever-present question of finance, in which is the necessity to provide the revenues to meet the requirements of administration in a manner that should bear equitably on all property values and thus tend to and assure a continuous normal growth of the community and the well-being of its citizens. This can best be

done, as can every other phase of financial administration, through the guidance and control which a well organized system of financial and statistical accounting would make possible.

There are still, I believe, some fiscal officers who attach little value to statistical records, however systematic or well adjusted; and, on the other hand, there are men actively interesting themselves in the problem of municipal accounting who would enter so largely into the statistical field in connection therewith as almost to render the production of statistics more important than the conditions or facts which give rise to them. Both of these extremes must be guarded against if municipal accounting is to develop along such rational lines as will make it of the greatest practical utility to the growing requirements and increasing functions of the modern municipality; if, in brief, it is to be kept free of bewildering projections and improved, as time and experience indicate and enlarging activities require, along such lines of orderly arrangement as to make it the basis for an intelligent administration of affairs and form the medium from and through which all significant publicity as to administration would at reasonable times be given.

*Material Inducements
for Accounting Skill.*

The President of your Association, Dr. LeGrand Powers, Chief Statistician, United States Census Bureau, in an admirable address to the National Association of Comptrollers and Accounting

Officers, on the occasion of its first annual convention at Chicago, on the subject of "Uniform Municipal Accounts," said:

"In general, it is true that the accounts of the most progressive private enterprises have reached a higher development than those of governments."

In all probability this observation of Dr. Powers is, in the main, correct, although in the periodical reports and statements of many large and important financial and business institutions and concerns there is still much room for improvement. There are, however, two main reasons which have tended to hinder the development or evolution of comprehensive and rational methods in government bookkeeping—National, State and municipal. One is that the material inducements by government for accountancy skill have not been nearly as attractive or remunerative as have been held out by private enterprise, where the value of the skilled accountant is becoming better understood and recognized as our great industries develop and our schemes of finance ramify in the most subtle complications; another is that municipal bookkeeping is so hedged around (and oftentimes properly so) by statutory checks and requirements as to hamper and hinder in various ways the full development of a rational scheme of accounts. This statement is not made as an excuse for the backward condition of municipal bookkeeping, but merely to assert the fact that the municipal accountant is not always as free to devise and install a direct and simple scheme of working accounts as his brother who is devoting his

skill to the formulating or improvement of bookkeeping expedients for the private corporation, no matter how extensive or varied its business may be.

It seems to me, therefore, that every public official upon whom devolves the responsibility of administering the people's affairs, and every one who is earnestly interested in the establishing of improved methods of public finance and the extension of the movement for the installation of a uniform system of municipal and State accounting and reporting should recognize the wisdom of endeavoring to make the profession of municipal accountant so attractive that, instead of being looked upon as a makeshift, it would be aspired to as the profession of a lifetime by men fit to rank among the brightest and most skilled of American accountants. In the promotion of legislation towards these ends great care should be at all times exercised to omit needless details from the statutes, and in this regard leave the accountant as free as possible to design a system that would give the clearest and most significant expression to the administration of the public trust or undertaking.

*Uniform System
of State and Mu-
nicipal Accounts.*

The movement for the installation of a uniform system of State and municipal accounting, which is the main object of the Association of Comptrollers and Accounting Officers previously referred to, and which has been so largely encouraged by that part of the work of the United States Census Bureau conducted under the skillful direction of Dr. Powers, while one of the least conspicuous, is among the most impor-

tant movements in recent years, and the study and work now quietly going forward in an effort to improve the efficiency of municipal and other public accounts and realize a greater control by improved administrative methods over the direction of public undertakings and expenditure of public moneys must make its impress for good in the administration of both our great and our lesser cities and States.

*Simple and Direct
Schemes of Accounts.*

In all purposes and projects bearing upon this all-important subject it should ever be borne in mind that all plans or schemes of accounting should be as simple and direct as the undertaking or purpose of the accounts will admit. They should be designed to strip the subject of intricacy rather than adding complications. Many latent necessities attach to features of established processes, which processes may be condemned *in toto* because of defects they may possess *only in part*. I am, therefore, an advocate of the principle that all definite action in the direction of working a change in methods of municipal accounts should follow more in the line of evolution than revolution, and should recognize the safety that attaches to firmly placing one foot before taking up the other in the forward march of progress.

*Significant Classification
and Serviceable Analysis.*

In this connection I would discourage the idea of too high a degree of organization in public accounts. By this I mean that in the zeal to *cut out* duplication of work in the interest of economy, the records of bureaus or departments may

so lose their independent movement and become so interdependent in action that a breakdown at one point would unduly paralyze all others. I also mean that in the matter of classification and analysis constant care should be exercised not to classify or analyze merely for the purpose of doing so. Useless segregation is both costly and meaningless, and all contemplated classification should be clearly significant and the analysis obviously serviceable for administrative purposes, otherwise it would be of no value.

The transactions of the great City of New York, both as to current administration and with respect to permanent betterments, have grown to such vast proportions and involve such complexity and complication of considerations that the skilled accountant is becoming every year more indispensable, and his constructive ability is being more and more called into play. During our administration it has been our purpose, with the help of accountancy skill, to keep on improving the accounting system in the Department of Finance and also in the other City Departments, so that through a significant classification of revenues and expenditures and a proper grouping of the accounts and the employment of accounting expedients, we may so classify all transactions as to develop the essential elements upon a plane of serviceable analysis, so that all important matters relating to the financial administration of the people's affairs may be so reflected in our annual and other periodical reports as to show in the clearest and most significant manner how the public trust has been administered.

MSH 28249.

**END OF
TITLE**